



March 1, 1979

Dear Mr.

Enclosed please find copies of several amended findings for the 1978-79 fiscal year pertaining to properties of Disabled American Veterans Charities used in the operation of thrift stores.

As you will observe, while the amended findings pertaining to DAV Charities of Greater Los Angeles reflect the fact that the Rehabilitation-Living Quarters Affidavit and Management Agreement have been submitted, the ultimate findings remain unchanged: Not Seen Met. In this regard, review of the Management Agreement disclosed that the management company "shall not be paid an amount in excess of ten (10) percent of the gross sales of salvageable material annually", and review of DAV Charities of Greater Los Angeles' Statement of Earnings for the 1977 calendar year disclosed total sales of \$1,092,503.02 and management fees of \$109,250.32, 10 percent of gross sales. We view the management fees received by the management company in this instance as excessive.

In administering the welfare exemption in thrift store-management contract situations, we have found property used in such operations eligible for the exemption so long as the remuneration to the management company is reasonable. To us, remuneration of \$109,250.32 is not reasonable. In the recent matter of Santa Barbara Council for Retarded Children, an organization which also sought exemption for property used in the operation of thrift stores, the Board concluded that the Council's property located in both Santa Barbara and Ventura Counties was not eligible for the exemption where, among other things, the remuneration to the management company was 10 percent of gross sales. In that matter, gross sales were \$1,044,962 and 10 percent thereof was \$104,486. We think the Board would similarly conclude that DAV Charities of Greater Los Angeles' remuneration to its management company was similarly excessive.

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As you will also observe, no amended finding has been prepared for DAV Charities of Fresno since the Management Agreement has yet to be submitted. Upon receipt of the Agreement, we will consider the claim in light thereof.

Our plans for the 1979-80 fiscal year are to continue to process claim forms involving the operation of thrift stores as in the past, namely, reviewing the existence and nature of rehabilitation progress and the nature of management contracts, if any, and particularly, the reasonableness of any management fees generated thereunder. At the same time, we are presently considering the thrift store-management contract situation, subsequent to which we intend to present a recommended course of action to the board for approval for use in the 1980-81 fiscal year and thereafter. One suggestion has been that allowable management fees for each thrift store operated would be dependent upon gross sales. For example:

10 percent of first \$150,000 in gross revenue per store,<sup>1</sup> up to a maximum management fee of \$15,000, plus

7 percent of next \$150,000 in gross revenue per store,<sup>2</sup> up to a maximum management fee of \$10,500 (cumulative maximum management fee - \$25,500), plus

4 percent of next \$200,000 in gross revenue per store, up to a maximum management fee of \$8,000 (cumulative maximum management fee - \$33,500), plus

1 percent of next \$1,650,000 in gross revenue per store, up to a maximum management fee of \$16,500 (cumulative maximum management fee - \$50,000).

Thus, on sales of \$200,000, a management company could receive a maximum of \$18,500 from which it would be expected to pay the salary of its on-site manager. Our information is to the effect that such managers are currently receiving between \$13,000 and \$20,000 per year as compensation for their services. Thus, the proposed fees would adequately cover such salary amounts while, at the same time, allowing management companies satisfactory remunerations.

We welcome any input you or any of your clients might wish to provide in this regard. In proposing such a schedule, we are not attempting to dictate to charitable organizations what their financial arrangements with management companies must be. We are; however, concerned with the excessive remuneration's some noncharitable management companies are receiving from managing thrift store operations. Attempts to obtain the welfare exemption where excessive remunerations are being realized are not, in our view, consistent with the purposes and

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<sup>1</sup> Each store must be considered separately. Averages not accepted.

<sup>2</sup> Maximum management fee per store - \$50,000.

requirements of the exemption. Thus, under this proposal a charitable organization could, as is presently the case, continue to elect or not to elect to qualify for the exemption, at its choosing.

Sincerely,

William L. Grommet  
Exemption Officer  
Assessment Standards Division

WLG:fr  
Enclosures

bc: Mr. J. J. Delaney  
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